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Reconstruction Aid Urgently Needed for Bosnia, World Bank Says

The international community must move quickly to finance an emergency reconstruction program in Bosnia, World Bank President James Wolfensohn announced December 9, adding that the Bank is prepared to play a key role in this effort.

Speaking at the Peace Implementation Conference in London, Wolfensohn said financing of about \$4.9 billion will be needed to implement a three-year program to repair war damage and revive the economy. "We have the opportunity to replace despair with hope and, in the process, to bring stability to a vitally important part of the world," he said.

Wolfensohn said he was ready to seek authorization from the Bank's Board of

Executive Directors to make funds available in advance of Bosnia joining the World Bank. But, he stressed, the Bank cannot be the sole financier of aid and other donor nations must get involved.

"We are prepared to coordinate and put in lead financing. We will do this as long as

others come along," he said. Only one entity, be it the Bank or some other organization, should coordinate aid efforts to ensure efficiency and avoid waste, he added.

Officials from 50 countries and international organizations attended the conference, which was called to work out ways of

building peace in Bosnia after the Dayton peace accords are signed December 14.

Speaking to journalists after the conference, Wolfensohn described Bosnia as a country that is "not functioning" and with an economy that is in "pretty rough shape." Bosnia is facing a very difficult external debt problem, which will have to be worked out with creditors as part of overall reconstruction.

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Scavenging for parts in Sarajevo. Reconstruction is essential for peace.

AP Photo/D. Delic

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New IFC Guidelines Forge Closer Ties With Private Sector

In response to criticism from private banks and firms who say it is cutting them out of business, the International Finance Corporation (IFC) has adopted a new set of guidelines for operating in emerging market economies.

"There have been instances where our partners in the financial community have complained that IFC was competing unfairly with—or duplicating activities performed by—the private banking community," IFC Executive Vice President Jannik Lindbaek says. "It is of great importance for us to build and maintain good working relationships with the international financial community."

Accordingly, the new guidelines adopted by IFC will reflect changes from current practices, acknowledging the increased role that private financial intermediaries can play in support of IFC's investment and advisory work.

IFC, a World Bank affiliate, provides equity and loan financing to the private sector in developing countries, without government guarantees, and may take equity positions in companies to which it lends. Its primary role is to act as catalyst to other private investors and to help develop capital markets.

IFC operates on the principle that all its activities should supplement and not supplant the role and financing of private investors, financial institutions and advisers. The new guidelines, therefore, will be based on three fundamental principles:

- The principle of *non-displacement*: IFC should not displace private capital that is available on reasonable terms to the private sector in developing countries. IFC should target resources to projects that otherwise would not be possible at all or would not be completed in a timely fashion.
- The *catalytic* principle, in financial terms, enjoins IFC to stimulate the flow of private capital, both domestic and foreign, to productive private enterprises. It requires IFC to encourage and persuade other investors to contribute significantly to the financing of projects in which the Corpo-

ration is investing its own funds and to mobilize additional resources from other sources.

- The *business partnership* principle directs IFC to work in association with the private sector and requires the Corporation to persuade other investors to accept the full commercial risks of emerging market investments. The intent of this principle is to bring to bear on the investments made by IFC and its partners the discipline of a market in which profitability is an essential test of developmental success.

"In markets where private capital has become available on reasonable terms, we can already declare victory and move on to challenges in other markets," says Lindbaek; "we have often stated that IFC's ultimate objective is to make itself unnecessary."

The guidelines include a wide array of recommendations, including: increase joint mandates with commercial and investment banks to conduct due diligence, feasibility and structuring work; increase joint roles with private financial institutions to avoid duplications; improve administration and supervision of jointly-financed projects; no competitive bidding for privatization mandates under normal conditions (including seven criteria to be met before accepting a non-competitive privatization mandate); and use private advisers to the fullest extent possible in corporate restructuring work.

It is not easy to define guidelines for every situation in which IFC interacts with private financial institutions, and there will be cases in which judgment calls will have to be made, IFC officials noted. But the officials stressed that the Corporation takes the issue very seriously and hopes to evaluate any disagreements or complaints in an open manner against an agreed set of guidelines. □

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Australia, New Zealand Boost Stake in World Bank

In a move heralded as good news for the private sector in the developing countries of Asia and the South Pacific, Australia and New Zealand have announced they will increase their stake in the World Bank Group.

Australia will increase its shares in the Bank's private sector affiliate, the International Finance Corporation, and will join the Multilateral Investment Guarantee Agency (MIGA) at a cost of \$31.8 million. It pledged \$20.6 million to IFC's 1991 General Capital Increase, bringing its share in the corporation to 1.97 percent from 1.35 percent. The Australian government also said it will contribute to the 11th replenishment of the Bank's soft-loan affiliate, the International Development Association, but did not give details.

With this investment, Australia is contributing both to the growth of businesses in developing countries and to expanding opportunities for its own business community.

"The Australian government's decision to fund IFC is extremely good news for the private sector in the developing countries of Asia, the South Pacific and elsewhere," commented IFC Executive Vice President Jannik Lindbaek. "With this investment, Australia is contributing both to the growth of businesses in developing countries and to expanding opportunities for its own business community in the emerging markets worldwide."

To date, Australian companies and financial institutions have provided more than \$368 million in loans and equity for IFC-assisted projects in developing countries. IFC has worked with 16 Australian firms on 16 projects around the world with a total

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Bosnia's Infrastructure in Shambles

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tion efforts, Wolfensohn said. Bosnia's external debt currently amounts to about \$3 billion, of which \$2 billion is in arrears.

He also described the devastation caused by war and noted that Bosnia's reconstruction needs are massive. One-quarter of a million people have been killed, more than 200,000 wounded and 13,000 permanently disabled. Domestic food production has dropped to one-third of needs, and nine out of ten people are dependent on food aid. Infant mortality has doubled, while epidemics and communicable diseases have increased two- to five-fold. More than half the country's doctors and nurses, and an indeterminate number of teachers, have been lost through death or migration. There are severe shortages of essential drugs and medical equipment.

More than one-third of health infrastructure, half the country's school buildings, virtually all parts of the transportation system and more than half of all housing have been damaged or destroyed. Annual per capita income has plunged to about \$500 from \$1,900 in 1990, while industrial output has dropped to 5 percent of 1990 levels.

Immediate priorities, Wolfensohn said, should be to get Bosnia functioning again by restoring food production and agricultural distribution; rebuilding roads, schools and hospitals; providing resources for the return of refugees and professionals to reunite families and speed up reconstruction; and getting power plants, shops and factories running again.

In the medium-term, Wolfensohn said, the Bank is ready to help Bosnia's stated interest in moving toward a market economy.

The World Bank and the European Com-

See **BOSNIA**, page 7

Home-grown Power Sector Reforms in Africa

Southern African countries need to find their own "home-grown" solutions and must forge strong regional cooperation to expand and reform their power sectors, participants agreed at a recent symposium on power sector reforms held near Johannesburg, South Africa.

The three-day symposium, co-sponsored by the World Bank Group and the first of its kind in Africa, gathered together government ministers and power company and private sector executives from 41 African countries. Presentations and discussions not only dispelled misconceptions about the Bank's energy policies, but also led to a broad consensus on the options available for power sector reforms. Many participants emerged from the symposium apparently ready to accept private participation in the power sector.

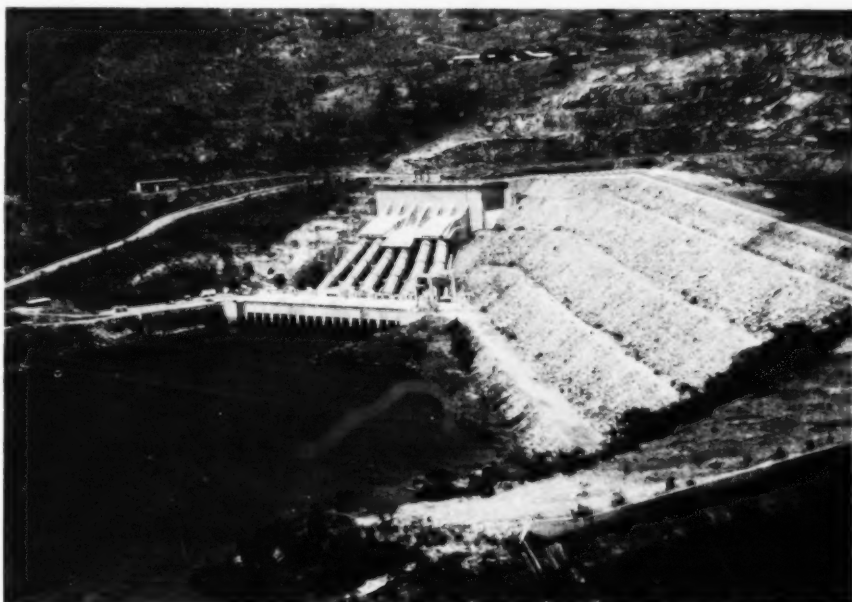
Experience in developing countries indicates that meaningful reform is the key to mobilizing private sector funds for investments in the power sector, said Richard Stern, director of the World Bank's Industry and Energy Department. The objective, he said, is to address the generally ineffi-

cient performance of the sector in Africa.

Several strategies for success emerged from the three days of discussions: African countries should not blindly apply reform models developed elsewhere and need to consider their own particular circumstances; regional trading and interconnections can greatly increase investment savings and benefits; domestic savings and foreign capital should be tapped for investments in the power sector; inefficient subsidies that help higher income households should be eliminated, while subsidies for the poor should be encouraged; and improving electric power supplies to rural areas should be a top priority.

As for the Bank, it can promote reforms in those countries that have yet to embark on them: it can assist in the development of the appropriate domestic capital markets and mechanisms—such as debt financing instruments—and it can encourage private investments. □

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World Bank/Johnson

Regional power-sharing is among the options for Africa.

A Shot in the Arm for the Private Sector

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cost of more than \$2.25 billion. MIGA Executive Vice President Akira Iida commented that MIGA "will benefit greatly from Australian support" and that "Australia in turn will benefit from MIGA's services in identifying investment opportunities marketed by developing member countries." Australian investors, he added, will also find that MIGA insurance services will complement their own national program's coverages.

Separately, the government of New Zealand announced it will subscribe to 1,558 IFC shares at a cost of \$1.6 million.

For its part, New Zealand funds two key IFC initiatives: the South Pacific Project Facility, based in Sydney, Australia, helps small- and medium-sized enterprises create business plans and links them to financing sources; the Foreign Investment Advisory Service, also in Sydney, helps developing country governments in Asia and the South Pacific structure laws and institutions to stimulate foreign direct investment.

IFC project financing in the Asia-Pacific region totaled \$691 million in fiscal 1995, accounting for 24 percent of the Corporation's investment portfolio. Loan syndications amounted to an additional \$752 million, bringing total financing in the region to \$1.4 billion.

Established in 1988 and now counting 131 member states, MIGA encourages foreign direct investment in developing countries by protecting investors from non-commercial risk, especially risk of war or expropriation. Its insurance portfolio was valued at \$1.6 billion at the end of fiscal 1995. □

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Environment in Europe Among Top Investment Concerns

Uncertainty about who is responsible for environment-related problems of industrial enterprises may be deterring foreigners from investing in Central and Eastern Europe, according to a new study by the World Bank.

The study, *Foreign Direct Investment and Environment in Central and Eastern Europe*, reveals a strong concern about environmental issues, and liability questions in particular, among firms considering investment in the region. It also identifies the industries most concerned about these issues and shows which environmental issues are of greatest importance in investment decisions.

Companies rated
environmental risks on a
par with many factors
usually considered
important in making
investment decisions,
including exchange rate
risks and political risks.

Beyond its relevance to the countries of Central and Eastern Europe, the study may be of interest to any government that is seeking to attract foreign investors. It may help policymakers design appropriate policies to address the concerns of foreign investors and to establish priorities for environmental protection and cleanup.

The study targeted 1,001 of the largest corporations in mining, construction and manufacturing in North America and Western Europe, asking them by questionnaire to rank the importance of environmental issues in their investment decisions in Central and Eastern Europe, and in particular in Poland, Hungary and former Czechoslovakia.

While environmental issues are seldom

the most important consideration for those making investment decisions, the study found that uncertainty over liability for hazardous wastes and future emissions is almost certainly discouraging investment in some industries. This points to the need for government actions that address environmental issues in foreign direct investment and privatization.

Results showed that companies rated environmental risks on a par with many factors usually considered important in making investment decisions, including exchange rate risks and political risks. Environmental issues mattered less when companies were making their initial decisions about whether to invest in the region, but they mattered most when companies were considering investing in a particular plant site. Some companies reported rejecting opportunities because of environmental problems.

The issue of potential liability arising from past environmental practices was the most important environmental issue for investors. This was followed closely by concern about liability for present and future practices and uncertainty over future environmental standards. Investors are most interested in obtaining indemnifications for potential environmental liabilities.

Finally, 85 percent of companies indicated that they conduct some form of significant assessment of environmental conditions at potential investment sites.

The study suggests that, although environmental concerns may have only a small impact on long-term investment flows, they are nonetheless important in guiding where and how investment is made. Nearly all large corporations want to obtain adequate environmental information before investing, and lack of such information may discourage potential investors from pursuing opportunities. □

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VERBATIM

Latin American countries must invest more in people and institutions if they want to combine rapid growth with a reduction in social inequality, according to World Bank Managing Director Richard Frank. Speaking December 1 at a conference in New Orleans on emerging markets in Latin America, Frank described how the World Bank can help Latin American nations address these issues. Following are excerpts from his speech:

People, Institutions Top Priorities for Latin America

“Latin America is entering a new age—and is in the midst of one of the decisive regional transformations of the post-Cold War era. Most striking is the energy and sense of opportunity—not quite a Latin American “miracle” yet, but with some of the same traits as East Asia’s successful industrial economies. I am thinking in particular of the vast array of economic and social innovations taking place, at both the central and local level.

“Most of us here would probably reach pretty close consensus on what needs to be done: increasing growth, particularly through higher levels of savings and investment; boosting exports and continuing to move vigorously toward a Free Trade Area of the Americas within the next decade; rebuilding basic infrastructure—where there is enormous pent-up demand; and reversing environmental degradation.

“All these steps are important...the World Bank Group, with over \$6 billion in commitments in Latin America last year, is deeply involved in all of them. But beyond these steps, I see two others that must be a priority, if faster growth is to be reconciled with faster reductions in inequality.

“First, there must be increased investment in people—and a major redirection of resources toward primary education, preventive health care and rural communities. Second, institutions need to be strengthened and built so that both social and economic reforms can progress further and faster—from antitrust commissions to schools, from banking supervi-

sion boards to rural health delivery units.

“In terms of human resource development, we believe that Latin America requires nothing less than an “education revolution” if it is to improve the quality of people’s lives and compete effectively in the increasingly interdependent global economy.

Enrollment ratios in the region’s primary and secondary schools are reasonable by international standards but quality is poor and may be getting worse. Investment in educational software and in innovative teaching methods and curricular materials has been woefully inadequate. The region’s universities and professional schools also need to be looked at, to see if they are up to the job of producing world-class talent.

“We believe that improving education is essential in order to make substantial inroads into poverty. Yes, economic growth creates new opportunities for the poor, but these can only be seized if the poor have the skills to take advantage of them.

“Turning to our support for institutional strengthening, the Bank is heavily involved across the board in assisting the countries of Latin America to reform and modernize their public sectors. At present, we are supervising some 62 projects related to state reform. Major areas of emphasis here include: reforming the civil service, through encouraging new pay and employment structures; improving the quality and coordination of budgets and investment; strengthening audit, social security, customs and tax agencies as well as procurement and asset management; decentralization, including the strengthening of local governments and provincial reform; and le-

gal, judicial and regulatory reform.

“Of particular importance, especially in light of the lessons learned from the peso crisis, has been our focus on strengthening the financial sector and banking systems. Last June, our Board approved loans totaling \$1.5 billion to help support Mexico’s banking system and to extend the process of reform in the financial sector. We also committed \$725 million to help Argentina privatize its provincial banks and expand public sector reform programs in 24 provinces; in addition, we provided a further \$500 million to a program to help restore confidence in Argentina’s private banking sector.

“I would like to stress that the entire World Bank Group is involved in assisting various countries in the region with broad-based institutional and specific financial-sector reforms: strengthening the banking systems, facilitating privatization and helping to mobilize additional investment flows—through, for example, the expanded use of our guarantee authority.

“Let me emphasize also the role of our concessional affiliate, the International Development Association—IDA. As you may know, because of proposed budgetary cutbacks by the US Congress, IDA is facing the most serious funding crisis in its history—a crisis which, if it is not overcome, will have direct and very harmful effects for the world’s poorest countries, including in Latin America and the Caribbean.”

Wolfensohn Restructures Top Bank Management

In his first major reorganization since taking office in June, World Bank President James Wolfensohn on December 6 announced he intends to restructure the top management of the Bank, "to provide clear lines of authority for the main areas of our business and to strengthen the Group's ability to address major strategic issues."

Wolfensohn appointed five managing directors and a new Executive Committee, saying that his overriding aim is "to enhance the quality and effectiveness of the Bank's work and its objectives" by providing "a framework for liberating the energies and skills of the rest of the organization."

The goal of the Bank, he stressed, is to promote sustainable development "in the broadest sense," and in particular to alleviate poverty and assist countries in transition. The organization needs to focus on achieving results on the ground by getting

closer to its clients' needs and by delivering top quality services, he added.

The five managing directors will be: **Gautam Kaji** and **Caio Koch-Weser**, who will be in charge of the Bank's operations, policies and programs. They will have line authority over the regional and thematic vice presidents. **Sven Sandstrom** will be in charge of Human and Information Resources and Management, as well as Corporate Planning and Budgeting. **Jessica Einhorn** will be in charge of the management of activities in finance and resource mobilization, supervising the functions of the vice presidencies now covered by the Treasurer, the Controller, Financial Policy and Risk Management and Cofinancing and Financial Advisory Services. She will also assume the chairmanship of the Bank's Finance Committee. **Richard Frank** will act as chairman of the Private Sector Development Group, with responsibility for work-

ing with senior managers of the Bank Group and to develop an overall strategy for private sector development.

The new Executive Committee—which will meet weekly—will consist of the five managing directors, as well as the Bank's senior vice president and general counsel, **Ibrahim Shihata**; the senior vice president, Development Economics, and chief economist, **Michael Bruno**; the vice president and chief of staff, **Rachel Lomax**; the vice president and secretary, **Shengman Zhang**; and the vice president, External Relations, **Mark Malloch Brown**. The committee will also be enlarged to include the executive vice president of the International Finance Corporation, **Jannik Lindbaek**, and the executive vice president of the Multilateral Investment Guarantee Agency, **Akira Iida**, whenever matters related to the management of the World Bank Group are involved. □

World Bank, Japan Join Forces for Research

Lessons from East Asia, especially about the effects of politics and institutions on development, should be among the top research priorities for experts studying ways to promote balanced, sustainable growth, according to Lyn Squire, director of the World Bank's Policy Research Department.

"East Asia's success suggests we need to know much more about how politics and institutions influence policy formation and implementation," Squire told development experts from the World Bank and Japan at a recent meeting in Tokyo.

Squire was addressing an ongoing debate among development experts about the contributions made by industrial policy, and whether market interventions that may have been helpful in Japan and other parts of East Asia would be helpful in today's developing countries.

He spoke December 11 to research experts attending the first World Bank-Japan Research Fair, a co-sponsored effort to expand collaboration between development researchers in Japan, the world's largest aid donor, and the Bank, the world's largest multilateral development organization.

Collaboration with Japan is essential to gain a deeper understanding of the impressive economic achievements of East Asia and to obtain information, knowledge and ideas about better ways to reduce poverty and protect the environment, Squire said, adding that the Research Fair is one attempt to build upon that cooperation.

Squire noted that experts generally agree that future research should draw on East Asian lessons in terms of the importance of sound fundamentals, particularly macroeconomic stability and investment in human capital. But, he stressed, disagreement per-

sists and much more needs to be done to better understand the political economy of development and institutions.

For instance, he asked, Why have some East Asian leaders been more committed to sharing the benefits of growth, and how can such readiness be encouraged elsewhere? And what determines whether a country develops the institutional capacity to implement effective policies? How can governments and development institutions design incentives so that policies are implemented in ways that maximize the development impact?

"I believe we can work together to find the answers to these questions, despite barriers of language, culture and in some cases divergent views about development," said Squire.

The theme of the Research Fair was, "To-

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A New Way of Forging Research Partnerships

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ward a new partnership, seeking balanced development that protects the environment and improves people's lives."

Unlike traditional conferences, where experts present papers on specific topics, the Fair encouraged discussion among researchers with a wide variety of interests and backgrounds. Instead of sitting and listening to prepared speeches, about 60 World Bank and Japanese researchers presented their work using multi-media tools.

Presentations ranged from new techniques for fighting water pollution and deforestation, to economic strategies for Viet Nam, to the roles of stock markets and special economic zones in promoting economic growth.

Japan is the world's leading donor of Official Development Assistance, and both Japan and the World Bank have extensive research communities, yet language barriers have been an obstacle to deeper collaboration. The impact of the Fair will not be felt immediately, Bank officials said, but if contacts pay off, there is great potential for significant strides in research, pooling together vast amounts of data and work in progress from both sides. □

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Brussels Meeting, A First Step for Bosnia

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mission will co-sponsor a meeting of officials from donor countries and agencies in Brussels, December 20-21, to lay out a comprehensive program for reconstruction and to mobilize short-term commitments to fund the first three months of urgent reconstruction work.

Although Bosnia is not a member of the World Bank Group, the Bank may invoke special measures—as it did with the West Bank and Gaza—to provide assistance. Bosnia's membership will depend on its plans to clear debt arrears with the Bank and reaching an agreement with donors on a strategy to handle existing obligations. □

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WORLD BANK LENDING ROUNDUP

ALBANIA The International Development Association (IDA) on December 12 approved a credit of \$6 million to help develop the agro-processing sector in Albania and improve the conditions for financing its restructuring through the financial sector, so as to improve the marketing of farm products. The three-year project, estimated to cost a total \$7.1 million, will have two components: a general line of credit to the agricultural sector at market rates for long-term loans, and training/assistance to potential entrepreneurs, farmers and associations. For more information, call Jan Pakulski at (202) 473-1797, fax 522-2633, e-mail: jpakulski@worldbank.org.

CHINA IDA on December 12 approved a credit of \$100 million to the People's Republic of China for a disease prevention project in 10 of the country's poorest provinces. The three parts of the project are immunization, health promotion and national level programs. The immunization component will include cold chain improvement, health workers' training, management, surveillance, information, education and communication. Health promotion will be the first phase of a long-term plan to develop capacity and gain experience in implementing effective strategies and interventions to control non-communicable and sexually-transmitted diseases. It will involve institutional development and policy reform, human resources development, surveillance and community-based interventions. National-level programs will provide technical assistance and coordination among provinces, cities and health agencies. For more information, call Graham Barrett at (202) 458-0344, fax 522-3405, e-mail: gbarrett@worldbank.org.

YEMEN IDA approved a credit of \$24.3 million to the Republic of Yemen December 12 for a vocational training project aimed at improving employment prospects, especially for women. The project will provide technical assistance, equipment and training materials, rehabilitation of facilities and civil works to: vocational and technical training authorities and programs; training centers; teachers; the hotel and tourism institute; training of the physically handicapped; pilot training centers. For more information, call Jeannie Yamine at (202) 473-2318, fax 477-7978, e-mail: jjamine@worldbank.org.

Date	Event	Sponsor	Location	Telephone
DECEMBER				
14-15	Zambia Consultative Group Meeting	World Bank	Bournemouth (U.K.)	(441) 71-930-8515
20-21	Bosnia-Herzegovina donors' meeting	World Bank/European Commission	Brussels	(202) 473-1782*
26	Global Coalition on Africa	World Bank	Maastricht	(331) 4069-3020
JANUARY 1996				
17-18	Panel: "Privatization and Employment in the Context of Economic Reform"	Arab Fund for Economic and Social Development/Arab Monetary Fund	Abu Dhabi	(202) 473-2318*
24	Emerging Market Seminar	ICBI	Paris	(441)71-915-5103
30	Kenya Consultative Group Meeting	World Bank	Paris	(331) 4069-3011

Upcoming HIV/AIDS Meetings in Asia

- AIDS Policy Seminar in South Asia. Economic Development Institute (EDI). Colombo, Sri Lanka. February 6-9, 1996.
- International seminar on Population and AIDS for project managers, sponsored by the Japanese Foundation for Advanced Studies on International Development (FASID) and Management Sciences for Health (MSH, Boston). Bangkok, February 1996.
- 3rd international training course on HIV for Laboratory Technicians, sponsored by JFAP and the Japan National Institute of Health. Tokyo, February 1996.
- Planning for HIV and AIDS. Course sponsored by European Union and British Council. Jaipur, India. March 4-16, 1996

Editor's Note: *Development Agenda* is a feature that alerts journalists to key news events in the field of economic development. Journalists should contact sponsoring agencies for details about each event. Asterisk (*) indicates telephone number is in the U.S.A. All other telephone numbers include country and city codes.

**WORLD BANK
NEWS**

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